

# SPECIAL NOTICE

August 21, 2001

For further information contact:

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## Tax Changes for Manufacturers of Dairy Products

Engrossed Substitute House Bill 2138, Chapter 25, Laws of 2001, Second Special Session, provides a lower business and occupation (B&O) tax rate for qualified manufacturers of dairy products.

**Effective September 20, 2001**, businesses that manufacture dairy products will pay B&O tax under a new classification and tax rate: "Manufacturing Dairy Products" at 0.138 percent. This change provides manufacturers of dairy products with a B&O tax rate comparable to other processors of agricultural commodities. Previously, such businesses paid B&O tax under the "Manufacturing" classification, at a rate of 0.484 percent. The lower B&O tax rate (0.138 percent) also applies to the sale of dairy products to buyers who transport the goods outside the state. Sales of such products to in-state buyers remain taxable at the wholesaling or retailing rate of 0.484 percent or 0.471 percent, with the appropriate Multiple Activities Tax Credit.

The tax reporting change and new rate applies to businesses that manufacture or sell dairy products such as milk, cheese, yogurt, ice cream, whey, or whey products from raw materials such as fluid milk, dehydrated milk, or various milk products, including cream, buttermilk, whey, butter or casein. The new tax classification does not apply to businesses that use dairy products merely as an ingredient or component of their manufactured product, for example, milk-based soups or pizza.

The new classification will not be identified on the September 2001 or Quarter 3, 2001 Combined Excise Tax Returns due to printing deadlines. However, it will be reflected on the October 2001 and subsequent tax returns.

Because the effective date of this legislation falls within a reporting period, qualifying manufacturers will need to report on two lines and two tax rates during the month of September (quarterly filers will also need to file on two lines during Quarter 3, 2001).

- ◆ Products manufactured prior to September 20, 2001 should be reported under the "Manufacturing" B&O tax classification (currently line 7) at 0.484 percent.
- ◆ Products manufactured on or after September 20, 2001, should be reported under the "Manuf. Fresh Fruit and Veg; Split or Proc. Dried Peas; Prescription Drug Warehousing; **Manuf. Dairy Products**" B&O tax classification (currently line 5) at 0.138 percent.

When reporting on the Combined Excise Tax Return after September 2001, qualifying manufacturers should report the value of the dairy products manufactured under the "Manuf. Fresh Fruit and Veg; Split or Proc. Dried Peas; Prescription Drug Warehousing; **Manuf. Dairy Products**" classification of the B&O tax (currently line 5).

For more information, contact the Department's Telephone Information Center at 1-800-647-7706.

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